

VILLAGE OF ONTONAGON
FINANCIAL STATEMENTS WITH
SUPPLEMENTAL INFORMATION

March 31, 2004

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name VILLAGE OF ONTONAGON	County ONTONAGON
Audit Date 3/31/04	Opinion Date 7/20/04	Date Accountant Report Submitted to State: 9/29/04	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).	✓		

Certified Public Accountant (Firm Name) BRUCE A. RUKKILA, CPA, PC			
Street Address 310 SHELDEN AVENUE		City HOUGHTON	State MI
Accountant Signature <i>Debbie Bradford</i>		ZIP 49931	Date 9/29/04

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Bruce A Rukkila, CPA, PC

Full Service Accounting Firm
for the Western Upper Peninsula

310 Sheldon Avenue • Houghton MI 49931
(906) 482-6601 • Fax: (906) 482-9046
e-mail: help@brucerukkila.com
www.bruцерukkila.com

INDEPENDENT AUDITOR'S REPORT

Honorable President and Members of the Village Council
Village of Ontonagon
Ontonagon, Michigan

We have audited the accompanying general purpose financial statements of the Village of Ontonagon as of March 31, 2004, and for the year then ended. These financial statements are the responsibility of the Village of Ontonagon's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Village of Ontonagon, Michigan, as of March 31, 2004, and the results of its operations and cash flows of its proprietary fund types for the year then ended in conformity with auditing standards generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 20, 2004 on our consideration of the Village of Ontonagon's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Our audit was performed for the purpose of forming an opinion on the general-purpose financial statements of the Village of Ontonagon, taken as a whole. The Supplemental Financial Information listed in the table of contents and the accompanying schedule of expenditures of federal awards as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* are presented for the purposes of additional analysis and are not a required part of the general purpose financial statements of the Village of Ontonagon. Such information has been subjected to the auditing procedures applied in the audit of the general-purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general-purpose financial statements taken as a whole.

Bruce A. Rukkila, CPA, PC
Certified Public Accountants

July 20, 2004

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	Governmental Fund Types			Proprietary Fund Types	
	General	Special Revenue	Capital Projects	Enterprise	Internal Service
ASSETS AND OTHER DEBITS:					
Cash and equivalents	\$ 463,203	\$ 520,579	\$ 72	\$ 279,212	\$ 209,523
Investments	-	-	-	-	-
Taxes receivable	22,719	65,843	-	-	-
Accounts receivable	11,650	-	84,437	139,588	-
Due from other funds	166,472	64,594	-	47,984	49,872
Due from primary government	-	-	-	-	-
Due from component unit	150,222	43	-	525	-
Inventory	-	-	-	-	-
Prepaid expenses	-	-	-	-	-
Restricted cash	-	-	-	-	-
Property, plant and equipment	-	-	-	386,218	-
Accumulated depreciation & amortization	-	-	-	25,810,196	1,145,091
Due from other governmental units	-	-	-	(2,993,393)	(733,554)
Amount to be provided for general long term debt	-	32,694	-	-	-
TOTAL ASSETS AND OTHER DEBITS	\$ 814,266	\$ 683,753	\$ 84,509	\$23,670,330	\$ 670,932
LIABILITIES:					
Accounts payable	\$ 8,240	\$ 12,917	\$ 83,806	\$ 25,029	\$ 2,120
Retainage payable	-	-	-	266,747	-
Accrued expenses	13,658	1,281	-	18,937	-
Customer deposits	-	-	-	7,751	-
Due to other funds	116,048	103,859	630	102,553	5,832
Due to primary government	-	-	-	-	-
Due to component unit	-	-	-	-	-
Due to other governmental units	-	-	-	-	862
Current maturities on long term debt	-	-	363	64	-
Notes payable	-	-	-	136,000	-
Current maturities on capital leases	-	-	-	-	42,520
Revenue bonds payable	-	-	-	-	-
Obligations under capital leases	-	-	-	10,327,000	-
Deferred revenue	6,486	-	-	-	-
TOTAL LIABILITIES	144,432	118,057	84,799	10,884,081	51,334
FUND EQUITY AND OTHER CREDITS:					
Contributed capital	-	-	-	12,613,224	248,780
Investment in general fixed assets	-	-	-	-	-
Unreserved fund balance	669,834	565,697	(290)	-	-
Retained earnings - Reserved	-	-	-	386,033	-
Retained earnings - Unreserved	-	-	-	(213,008)	370,818
TOTAL FUND EQUITY AND OTHER CREDITS	669,834	565,696	(290)	12,786,249	619,598
TOTAL LIABILITIES, FUND EQUITY AND OTHER CREDITS	\$ 814,266	\$ 683,753	\$ 84,509	\$23,670,330	\$ 670,932

The accompanying notes to financial statements are an integral part of this statement.

AGE OF ONTONAGON
FINANCIAL BALANCE SHEETS
BY TYPES AND ACCOUNT GROUPS
March 31, 2004

Account Groups		Totals (Memorandum Only)	Component Unit		Totals (Memorandum Only)	
General Fixed Assets	General Long-Term Obligations	Primary Government	Downtown Development Units	Ontonagon Memorial Hospital	Reporting Entity	
					2004	2003
\$ -	\$ -	\$ 1,472,589	\$ 387,072	\$ 602,076	\$ 2,461,737	\$ 2,407,611
-	-	-	-	350,557	350,557	363,374
-	-	88,562	14,031	-	102,593	110,758
-	-	235,675	-	1,714,618	1,950,293	2,031,587
-	-	328,922	-	-	328,922	220,154
-	-	-	862	-	862	1,014
-	-	150,790	-	-	150,790	114,599
-	-	-	-	200,465	200,465	202,528
-	-	-	-	56,519	56,519	60,762
-	-	386,218	-	-	386,218	397,474
3,141,666	-	30,096,953	-	6,216,211	36,313,164	33,212,863
-	-	(3,726,947)	-	(4,703,396)	(8,430,343)	(7,753,932)
-	-	32,694	-	-	32,694	29,309
-	367,973	367,973	-	-	367,973	370,541
<u>\$ 3,141,666</u>	<u>\$ 367,973</u>	<u>\$29,433,429</u>	<u>\$ 401,965</u>	<u>\$ 4,437,050</u>	<u>\$34,272,444</u>	<u>\$31,768,642</u>
\$ -	\$ -	\$ 132,112	\$ 258	\$ 426,748	\$ 559,118	\$ 663,441
-	-	266,747	-	-	266,747	98,539
-	52,973	86,849	-	1,070,583	1,157,432	1,224,770
-	-	7,751	-	-	7,751	7,371
-	-	328,922	-	-	328,922	220,154
-	-	-	150,790	-	150,790	114,599
-	-	862	-	-	862	1,014
-	-	427	214,322	-	214,749	222,837
-	-	136,000	-	29,741	165,741	160,112
-	315,000	357,520	-	250,184	607,704	665,305
-	-	-	-	117,652	117,652	-
-	-	10,327,000	-	105,093	10,432,093	9,820,834
-	-	-	-	491,764	491,764	-
-	-	6,486	-	504,044	510,530	798,669
-	367,973	11,650,676	365,370	2,995,809	15,011,855	13,997,645
-	-	12,862,004	-	-	12,862,004	11,488,598
3,141,666	-	3,141,666	-	-	3,141,666	3,075,038
-	-	1,235,240	36,595	-	1,271,835	1,104,049
-	-	386,033	-	-	386,033	397,394
-	-	157,810	-	1,441,241	1,599,051	1,705,918
<u>3,141,666</u>	<u>-</u>	<u>17,782,753</u>	<u>36,595</u>	<u>1,441,241</u>	<u>19,260,589</u>	<u>17,770,997</u>
<u>\$ 3,141,666</u>	<u>\$ 367,973</u>	<u>\$29,433,429</u>	<u>\$ 401,965</u>	<u>\$ 4,437,050</u>	<u>\$34,272,444</u>	<u>\$31,768,642</u>

VILLAGE OF ONTONAGON
COMBINED STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - ALL GOVERNMENTAL FUND TYPES
Year Ended March 31, 2004

	Governmental Fund Types			Totals (Memorandum Only) Primary Government	Component Unit Downtown Development Authority	Totals (Memorandum Only)	
	General	Special Revenue	Capital Projects			2004	2003
REVENUES:							
Current taxes	\$ 366,985	\$ 138,937	\$ -	\$ 505,922	\$ 101,883	\$ 607,805	\$ 556,128
State revenue	204,042	203,370	-	407,412	-	407,412	401,705
Federal grant	64,200	-	-	64,200	-	64,200	60,300
Charges for services	52,996	-	-	52,996	-	52,996	47,587
Fines and penalties	86	15	-	101	-	101	90
Fees	-	-	-	-	-	-	2,360
Interest and rents	5,604	3,669	-	9,273	6,276	15,549	13,240
Contribution from other units	10,383	-	-	10,383	-	10,383	13,423
Other revenue	107,838	-	1,028,828	1,136,666	7,914	1,144,580	1,950,647
TOTAL REVENUES	812,134	345,991	1,028,828	2,186,953	116,073	2,303,026	3,045,480
EXPENDITURES:							
General Government	105,507	-	-	105,507	-	105,507	123,176
Public Safety	182,715	-	-	182,715	-	182,715	197,986
Public Works	86,681	282,332	1,029,117	1,398,130	-	1,398,130	2,197,212
Recreation and Culture	61,073	-	-	61,073	-	61,073	65,849
Community Planning	15,301	-	-	15,301	50,054	65,355	155,212
Other	125,960	-	-	125,960	1,500	127,460	31,321
TOTAL EXPENDITURES	577,237	282,332	1,029,117	1,888,686	51,554	1,940,240	2,770,756
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	234,897	63,659	(289)	298,267	64,519	362,786	274,724
OTHER FINANCING SOURCES (USES):							
Operating transfers in	-	316,775	-	316,775	-	316,775	171,000
Operating transfers out	(195,000)	(316,775)	-	(511,775)	-	(511,775)	(366,000)
TOTAL OTHER FINANCING SOURCES (USES)	(195,000)	-	-	(195,000)	-	(195,000)	(195,000)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	39,897	63,659	(289)	103,267	64,519	167,860	79,724
FUND BALANCE(DEFICIT), BEGINNING OF YEAR	629,937	502,036	(1)	1,131,973	(27,924)	1,104,049	1,024,325
FUND BALANCE(DEFICIT), END OF YEAR	\$ 669,834	\$ 565,696	\$ (290)	\$ 1,235,240	\$ 36,595	\$ 1,271,835	\$ 1,104,049

The accompanying notes to financial statements are an integral part of this statement.

VILLAGE OF ONTONAGON
COMBINED STATEMENTS OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL AND SPECIAL REVENUE FUNDS
Year Ended March 31, 2004

	General			Special Revenue		
	Budget	Actual	Variance- Favorable (Unfavorable)	Budget	Actual	Variance- Favorable (Unfavorable)
REVENUES:						
Current taxes	\$ 361,354	\$ 366,985	\$ 5,631	\$ 148,000	\$ 138,937	\$ (9,063)
State revenue	202,300	204,042	1,742	175,900	203,370	27,470
Federal grant	62,100	64,200	2,100	-	-	-
Charges for services	51,750	52,996	1,246	-	-	-
Fines and penalties	150	86	(64)	-	15	15
Interest and rents	5,500	5,604	104	1,900	3,669	1,769
Contribution from other units	10,200	10,383	183	-	-	-
Other revenue	67,050	107,838	40,788	-	-	-
TOTAL REVENUES	760,404	812,134	51,730	325,800	345,991	20,191
EXPENDITURES:						
General Government	120,710	105,507	15,203	-	-	-
Public Safety	177,500	182,715	(5,215)	-	-	-
Public Works	114,900	86,681	28,219	325,800	282,332	43,468
Recreation and Culture	77,180	61,073	16,107	-	-	-
Community Planning	18,850	15,301	3,549	-	-	-
Other	121,950	125,960	(4,010)	-	-	-
TOTAL EXPENDITURES	631,090	577,239	53,851	325,800	282,332	43,468
EXCESS OF REVENUES OVER EXPENDITURES	129,314	234,897	105,581	-	63,659	63,659
OTHER FINANCING SOURCES (USES):						
Operating transfers in	-	-	-	147,975	316,775	168,800
Operating transfers out	(195,000)	(195,000)	-	(147,975)	(316,775)	(168,800)
TOTAL OTHER FINANCING SOURCES (USES)	(195,000)	(195,000)	-	-	-	-
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	\$ (65,686)	39,897	\$ 105,583	\$ -	63,659	\$ 63,659
FUND BALANCE, BEGINNING OF YEAR		629,937			502,037	
FUND BALANCE(DEFICIT), END OF YEAR		\$ 669,834			\$ 565,696	

The accompanying notes to financial statements are an integral part of this statement.

VILLAGE OF ONTONAGON
COMBINED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN
RETAINED EARNINGS - ALL PROPRIETARY FUND TYPES
Year Ended March 31, 2004

	Proprietary Fund Types		Totals (Memorandum Only)	Component Unit	Blended Totals (Memorandum Only)	
	Enterprise	Internal Service	Primary Government	Ontonagon Memorial Hospital	2004	2003
OPERATING REVENUES:						
Sales and charges for services	\$ 873,686	\$ -	\$ 873,686	\$10,759,623	\$11,633,309	\$10,732,354
Fines, forfeitures and penalties	9,747	-	9,747	-	9,747	3,284
Equipment rental	-	164,003	164,003	-	164,003	164,799
Contribution from other units	-	-	-	243,772	243,772	215,181
Other revenue	374,156	-	374,156	5,650	379,806	152,284
TOTAL OPERATING REVENUES	1,257,589	164,003	1,421,592	11,009,045	12,430,637	11,267,902
EXPENSES:						
Salaries, wages, and fringe benefits	315,117	22,719	337,836	7,415,861	7,753,697	7,271,718
Supplies, materials and other	61,617	19,787	81,404	1,665,196	1,746,600	1,637,519
Repair and maintenance	1,052	16,919	17,971	-	17,971	22,343
Insurance	25,855	1,746	27,601	-	27,601	20,023
Utilities	121,827	4,941	126,768	306,473	433,241	347,017
Other services and support	228,990	7,921	236,911	921,102	1,158,013	883,543
Provisions for bad debt	-	-	-	475,757	475,757	576,645
Depreciation	503,728	89,857	593,585	240,374	833,959	699,941
TOTAL EXPENSES	1,258,186	163,890	1,422,076	11,024,763	12,446,839	11,458,749
OPERATING INCOME(LOSS)	(597)	113	(484)	(15,718)	(16,202)	(190,847)
NON-OPERATING REVENUES (EXPENSES):						
Loss on disposal of assets	(48,830)	-	(48,830)	-	(48,830)	-
Loss on sale of assets	-	-	-	-	-	(7,950)
Interest income	7,856	857	8,713	8,940	17,653	32,608
Interest expense	(282,950)	(2,091)	(285,041)	(43,912)	(328,953)	(498,330)
Operating transfers in	195,000	60,000	255,000	-	255,000	195,000
Operating transfers out	(60,000)	-	(60,000)	-	(60,000)	-
TOTAL NON-OPERATING REVENUES (EXPENSES)	(188,924)	58,766	(130,158)	(34,972)	(165,130)	(278,672)
NET INCOME(LOSS)	(189,521)	58,879	(130,642)	(50,690)	(181,332)	(469,519)
RETAINED EARNINGS, BEGINNING OF YEAR	299,442	560,719	860,161	1,491,931	2,352,092	2,629,697
ADJUSTMENTS TO FUND EQUITY:						
Contribution to contributed capital	(123,000)	-	(123,000)	-	(123,000)	-
Adjust reserve retained earnings	(18,391)	-	(18,391)	-	(18,391)	-
Add depreciation on fixed assets acquired with contributed capital	204,495	-	204,495	-	204,495	191,914
RETAINED EARNINGS, END OF YEAR	\$ 173,025	\$ 619,598	\$ 792,623	\$ 1,441,241	\$ 2,233,863	\$ 2,352,092

The accompanying notes to financial statements are an integral part of this statement.

VILLAGE OF ONTONAGON
COMBINED STATEMENTS OF CASH FLOWS
ALL PROPRIETARY FUND TYPES

Year Ended March 31, 2004

	Proprietary Fund Types		Totals (Memorandum Only)		Component Unit		Totals (Memorandum Only)	
	Enterprise Funds	Internal Service Funds	Primary Government		Ontonagon Memorial Hospital		Reporting Entity	
	\$ (597)	\$ 113	\$ (484)	\$	(15,718)	\$	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES								
Operating income (loss)	503,728	89,857	593,585		240,374		833,959	699,941
Adjustments to reconcile net income to net cash provided by operating activities:								
Depreciation	0	0	0		475,757		475,757	576,645
Interest expense	0	0	0		43,912		43,912	58,397
Loss on disposal of fixed assets	(48,830)	0	(48,830)		0		(48,830)	0
(Increase) decrease in accounts receivable	(26,962)	0	(26,962)		(487,562)		(514,524)	(805,794)
(Increase) decrease in due from other funds	(10,241)	(36,281)	(46,522)		0		(46,522)	(37,502)
(Increase) decrease in due to component unit	525	0	525		0		525	0
(Increase) decrease in due inventory	0	0	0		483		483	(4,939)
(Increase) decrease in due prepaid expenses	0	0	0		3,784		3,784	(1,182)
(Increase) decrease in accounts payable	(36,417)	(1,192)	(37,609)		55,375		17,766	42,604
(Increase) decrease in retainage payable	168,208	0	168,208		0		168,208	(450,196)
(Increase) decrease in utility deposits	380	0	380		0		380	18,522
(Increase) decrease in accrued expenses	983	(237)	746		(54,606)		(53,860)	(646)
(Increase) decrease in due to government units	(16)	0	(16)		0		(16)	(11,059)
(Increase) decrease in due to other funds	11,695	(13,560)	(1,865)		0		(1,865)	112,839
(Increase) decrease in due to component unit	0	(152)	(152)		0		(152)	885
(Increase) decrease in 3rd party reimbursement	0	0	0		(282,608)		(282,608)	1,162
NET CASH PROVIDED BY OPERATING ACTIVITIES	562,456	38,548	601,004		(20,809)		580,195	(50,067)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:								
Operating transfers in (out)	135,000	60,000	195,000		0		195,000	195,000
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	135,000	60,000	195,000		0		195,000	195,000
CASH FLOWS FROM INVESTING ACTIVITIES								
Decrease in assets limited as to use	0	0	0		12,817		12,817	53,135
Purchase of fixed assets	(2,475,551)	(25,865)	(2,501,416)		(48,353)		(2,549,769)	(1,680,398)
Sale of equipment	0	0	0		0		0	500
Interest on investments	7,856	857	8,713		9,399		18,112	33,064
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	(2,467,695)	(25,008)	(2,492,703)		(26,137)		(2,518,840)	(1,593,699)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES								
Proceeds from long-term debt	777,000	0	777,000		0		777,000	0
Interest paid on long-term debt	1,454,900	0	1,454,900		0		1,454,900	2,031,100
Payment of lease obligations	(282,950)	(2,091)	(285,041)		(97,873)		(382,914)	(490,556)
Repayment of note payables	0	0	0		(51,476)		(51,476)	(96,284)
Repayment of long-term debt	(131,000)	(3,000)	(134,000)		(54,601)		(188,601)	(96,284)
NET CASH PROVIDED BY FINANCING ACTIVITIES	1,817,950	(5,091)	1,812,859		(29,112)		(163,112)	(298,790)
NET INCREASE (DECREASE) IN CASH	47,711	68,449	116,160		(233,062)		1,579,797	1,145,470
CASH AT BEGINNING OF YEAR	617,719	141,074	758,793		(280,008)		(163,848)	(303,296)
CASH AT END OF YEAR	\$ 665,430	\$ 209,523	\$ 874,953		\$ 882,084		\$ 1,640,877	\$ 1,944,173

The accompanying notes to financial statements are an integral part of this statement.

VILLAGE OF ONTONAGON

NOTES TO FINANCIAL STATEMENTS - MARCH 31, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Village of Ontonagon, Michigan, conform to generally accepted accounting principles for local governmental units as prescribed by the Governmental Accounting Standards Board and the American Institute of Certified Public Accountants. The following is a summary of the more significant policies:

REPORTING ENTITY

The Village of Ontonagon is incorporated under the laws of the State of Michigan and operates under an elected council form of government.

As required by generally accepted accounting principles, the financial statements of the reporting entity include those of the Village of Ontonagon (the primary government) and its component units. The component units discussed below are included in the Village's reporting entity because of the significance of their operational or financial relationships with the Village. The criteria and guidelines of the Governmental Accounting Standards Board Statement Number 14 *The Reporting Entity* are utilized to determine that all applicable entities are included in the combined financial statements of the Village. The primary criterion for inclusion is the degree of oversight responsibility over such entities by the Village's elected officials. This responsibility includes financial interdependency, selection of governing authority, selection of management, ability to significantly influence operations, and accountability for fiscal matters. Additional criteria that are considered even if there is no significant oversight responsibility are an entity's scope of public service and special financing relationships between a particular agency and the reporting entity.

Based upon the application of these criteria, the following is a brief review of each potential component unit addressed in defining the government's reporting entity:

Ontonagon Memorial Hospital - the hospital is owned by the Village of Ontonagon. The Village is financially accountable for the hospital. The hospital, therefore, is included in these financial statements using the "discrete presentation method."

Downtown Development Authority - the Downtown Development Authority (DDA) is a separate legal entity; however, the Village is financially accountable for the DDA. Therefore, the DDA is included with the Village financial statements using the "discrete presentation method."

Ontonagon Housing Commission - the Village is not financially accountable for the Housing Commission nor does it have a significant relationship. Therefore, the Housing Commission is not included as part of the Village reporting entity.

The Ontonagon Memorial Hospital and the Ontonagon Housing Commission are audited separately by other auditors. These audits are under separate cover. Copies of these audits may be obtained from the Ontonagon Village manager.

VILLAGE OF ONTONAGON

NOTES TO FINANCIAL STATEMENTS - MARCH 31, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

DISCRETELY PRESENTED COMPONENT UNITS

The component units' columns in the combined financial statements include the financial data of the Village's component units, the Ontonagon Memorial Hospital, and the Downtown Development Authority (DDA). These units are reported in a separate column to emphasize that it is legally separate from the Village. Copies of these audits may be obtained from the Ontonagon Village manager.

FUND ACCOUNTING

The accounts of the Village are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity or retained earnings, revenues, and expenditures or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped in the financial report into three broad and seven generic fund types.

GOVERNMENTAL FUND TYPES

General Fund - The General Fund is the general operating fund of the Village. It is used to account for all financial resources except those required to be accounted for in another fund. The fund includes the general operating revenues and expenditures of the local unit. Revenues are derived primarily from property taxes, state and federal resources, grants, and other intergovernmental revenues.

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than special assessments, expendable trusts, or major capital projects) that are legally restricted to expenditures for specific purposes.

PROPRIETARY FUND TYPES

Enterprise Funds - Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided the periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The Water and Sewer Funds are enterprise type funds.

Internal Service Funds - Internal Service Funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the Village or to other governments, on a cost - reimbursement basis. The Village maintains one Internal Service Fund, which is the Equipment Pool Fund.

VILLAGE OF ONTONAGON

NOTES TO FINANCIAL STATEMENTS - MARCH 31, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

ACCOUNT GROUPS

General Fixed Assets Account Group - This account group presents the fixed assets of the local unit utilized in its general operations.

General Long-Term Debt Account Group - This account group presents the balance of general obligation long-term debt except that which are recorded in proprietary funds.

FIXED ASSETS AND LONG-TERM LIABILITIES

The accounting and reporting treatment applied to the fixed assets and long-term liabilities associated with a fund are determined by its measurement focus. All governmental funds are accounted for on a spending or "financial flow" measurement focus. This means that only current assets and current liabilities are generally included on governmental fund balance sheets. This reported fund balance (net current assets) is considered a measure of "available spendable resources." Governmental fund operating statements present increases (revenues and other financial sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

Fixed assets used in governmental fund type operations are accounted for in the General Fixed Assets Account Group, rather than in governmental funds. Public domain general fixed assets consisting of roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, and lighting systems, are not capitalized along with other general fixed assets. No depreciation has been provided on general fixed assets.

Fixed assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated fixed assets are valued at their estimated fair value on the date donated.

Long-term liabilities expected to be financed from governmental funds are accounted for in the General Long-Term Debt Account Group, not in the governmental funds.

The General Fixed Assets Account Group and the General Long-Term Debt Account Group are not "funds." Their purpose is related only to the measurement of financial position. They are not involved with measurement of results of operations.

All proprietary funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and liabilities (whether current or non-current) associated with an activity are included on their balance sheets. Their reported fund equity (net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net total assets.

Depreciation of all exhaustible fixed assets used by proprietary funds is charged as an expense against their operations. Accumulated depreciation is reported on proprietary fund balance sheets. Depreciation is generally reflected over the estimated useful lives using the straight-line method.

VILLAGE OF ONTONAGON

NOTES TO FINANCIAL STATEMENTS - MARCH 31, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

BASIS OF ACCOUNTING

The basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. The basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

All governmental funds, expendable trust funds, and agency funds are accounted for using the modified accrual basis of accounting. Under modified accrual, revenues are recognized when they become both measurable and available to finance expenditures of the current period. Significant revenues susceptible to accrual include property taxes, state and federal sources, and intergovernmental revenues. Other revenue sources, such as licenses, permits, charges for services, sales, fees, fines, rentals, and others are recorded as revenues when received in cash because they are generally not measurable until actually received. Investment earnings are not accrued in the governmental fund types or in Expendable Trust and Agency Funds. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred with certain exceptions such as interest on long-term debt which is generally recognized when due.

All proprietary funds, are accounted for using the full accrual basis of accounting. Under full accrual, revenues are recognized when earned, and expenses are recognized when incurred.

BUDGETARY DATA

The Village follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. In February, the Village Manager submits to the Village Council a proposed operating budget for the fiscal year commencing the following April 1. The operating budget includes proposed expenditures and the means of financing them.
- b. A public hearing is conducted to obtain taxpayer comments.
- c. Prior to April 1, the budget is legally enacted by resolution.
- d. The Village Manager is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the Village Council.
- e. Formal budgetary integration is employed as a management control device during the year for the General Fund and Special Revenue Funds.
- f. Budgets for the General and Special Revenue Funds are adopted on a basis consistent with generally accepted accounting principles.

All budget appropriations lapse at year end. Budgetary amounts reported herein are as originally adopted, or as amended by the Village council throughout the operating year.

In accordance with the State of Michigan Budgeting and Accounting Act, the Village must adopt an annual operating budget for the General and Special Revenue Funds.

VILLAGE OF ONTONAGON

NOTES TO FINANCIAL STATEMENTS - MARCH 31, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

PROPERTY TAXES

Property taxes are levied on July 1. The Village collects its own property taxes until September 14, at which time collection is turned over to Ontonagon County for collection.

The tax rate to finance general Village government services for the year ended March 31, 2004, was \$12.50 per \$1,000 of assessed value. At July 1, 2003, taxable valuation was \$29,981,584 which computed to \$389,384 taxes levied. Additional millage was levied county-wide for road improvements which amounted to \$157,937 for the Village Road Fund.

TOTAL COLUMNS ON COMBINED STATEMENTS

The total columns on the combined statements are captioned Memorandum Only to indicate they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or changes in financial position in conformity with generally accepted accounting principles. Neither are such data comparable to a consolidation. Consolidation requires that inter-fund eliminations be made in aggregation of these data.

CASH AND CASH EQUIVALENTS

The Village's cash and cash equivalents include cash on hand, certificates of deposit, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the village to invest in U.S. government obligations, certificates of deposit, commercial paper, repurchase agreements, bankers acceptances, and with some restrictions, mutual funds. An Attorney General's opinion states that public funds may not be deposited in financial institutions located in states other than Michigan. The Village does have an investment policy that meets state statutory regulations.

RESTRICTED ASSETS - CASH AND CASH EQUIVALENTS

Certain cash accounts are classified as restricted assets on the balance sheet because their use is limited. In the Enterprise Fund, the "Bond Requirements" accounts are used for the payment of current debt obligations.

DUE FROM AND TO OTHER FUNDS

Due from other funds represents current interfund loans receivable and is considered "available spendable resources."

VILLAGE OF ONTONAGON

NOTES TO FINANCIAL STATEMENTS - MARCH 31, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

PROPERTY AND EQUIPMENT

Property and equipment within the Proprietary Funds are stated at cost or, if donated, at fair market value at the date of donation. Expenditures which materially extend the useful life of existing properties are capitalized. All costs relating to the construction of facilities are capitalized, including salaries, employee benefits, and bond interest costs. Certain governmental improvements including roads, bridges, curbs and gutters, and sidewalks are not capitalized.

Depreciation on property and equipment recorded in proprietary Fund Types is computed using the straight-line method over the estimated useful lives of the related assets.

The Village maintains a General Fixed Assets Account Group for assets purchased by Governmental Fund Types. The cost of new assets is expensed within these funds when the assets are purchased.

FUND EQUITY

The unreserved fund balances for governmental funds represent the amount available for budgeting future operations. Unreserved retained earnings for proprietary funds represent the net assets available for future operations or distributions. Reserved fund balance for governmental funds represent that portion of fund equity which has been legally segregated for specific purposes and/or does not constitute current available spending resources. Reserved retained earnings for proprietary funds represent the net assets that have been legally identified for specific purposes.

CONTRIBUTED CAPITAL

The Village follows the policy of reducing contributed capital in the sewer fund for an amount equal to the yearly depreciation on assets acquired or constructed with such contributed capital. This policy is based on the premise that future replacement of these facilities will be funded by the users who benefit from the facilities and not current users through the current rate structure. At March 31, 2004, Federal, State and Local contributed capital of \$13,791,102 has been reduced by an aggregate of \$929,099. The current year amortization is \$204,495.

ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

ENCUMBRANCES

Encumbrances are defined as commitments related to unperformed contracts for goods and services. The Village does not record encumbrances in the normal course of operating its accounting system and none are recorded in the accompanying financial statements.

VILLAGE OF ONTONAGON

NOTES TO FINANCIAL STATEMENTS - MARCH 31, 2004

NOTE B - CASH, CASH EQUIVALENTS AND INVESTMENTS

CASH DEPOSITS

Primary Government - At March 31, 2004, the book value of the Village's demand deposits, consisting primarily of checking and savings accounts, certificates of deposit and other cash equivalents, was \$1,858,807 with a corresponding bank balance of \$1,885,253. Qualifying deposits are insured by the Federal Deposit Insurance Corporation up to \$100,000. Of the bank balance, approximately \$777,700, representing approximately 41% of the Village's deposits, was covered by Federal Depository Insurance. Michigan law does not require collateralization of government deposits, therefore, only the \$777,700 was insured and \$1,107,553 was neither insured or collateralized.

The Village has determined that because of the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. In addition, the laws of the State of Michigan do not provide for collateralization of bank deposits. As a result, the Village evaluates each financial institution it uses and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Component Units:

Downtown Development Authority - At March 31, 2004, the book value of demand deposits, consisting primarily of checking and certificates of deposit, was \$387,072 with a corresponding bank balance of \$387,072. Qualifying deposits are insured by the Federal Deposit Insurance Corporation up to \$100,000. Of the bank balance, approximately \$200,000, representing approximately 52% of the Village's deposits, was covered by Federal Depository Insurance. Michigan law does not require collateralization of government deposits, therefore, only the \$200,000 was insured and \$187,072 was neither insured nor collateralized.

Ontonagon Memorial Hospital - At March 31, 2004, the amount of the Hospital's bank deposits in excess of Federal Deposit Insurance Corporation limits was approximately \$898,757.

INVESTMENTS

Investments are for the component unit, Ontonagon Memorial Hospital, in the amount of \$350,557. Investments consist primarily of cash and certificates of deposits and are stated at fair value.

VILLAGE OF ONTONAGON
NOTES TO FINANCIAL STATEMENTS - MARCH 31, 2004

NOTE C - INTERFUND RECEIVABLES AND PAYABLES

The amounts of interfund receivables and payables at March 31, 2004 are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General	\$ 166,472	General Fund	\$ 116,048
Local Street	22,895	Major Street	57,105
Road Fund	41,699	Local Street	46,754
M64 Bridge	0	M64 Bridge	630
Sub-Total	64,594	Sub-Total	104,489
Sewer Disposal	0	Sewer Disposal	90,641
Water Supply	47,984	Water Supply	11,912
Sub-Total	47,984	Sub-Total	102,553
Equipment Fund	49,872	Equipment Fund	5,832
TOTALS	\$ 328,922	TOTALS	\$ 328,922

Component unit and primary government "interfund" receivable and payable balances at March 31, 2004 consisted of the following:

<u>Fund</u>	<u>Receivable</u>	<u>Fund</u>	<u>Payable</u>
General Fund	\$ 150,222	Downtown Development	\$ 150,790
Road Fund	43	Equipment Fund	862
Water Fund	525		
Downtown Development	862		
TOTALS	\$ 151,652	TOTALS	\$ 151,652

NOTE D - PROPERTY, PLANT, AND EQUIPMENT

A summary of the changes in general fixed assets is as follows:

	Balance 04/01/03	Additions	Subtractions	Balance 3/31/04
Land & Land Improvements	\$ 707,785	\$ 10,000	\$ -	\$ 717,785
Buildings	1,373,363	6,000	63,000	1,316,363
Equipment	52,000	136,000	-	188,000
Vehicles	11,540	-	11,540	0
Office equipment	33,499	-	10,832	22,667
Streets	896,851	-	-	896,851
	\$ 3,075,038	\$ 152,000	\$ 85,372	\$ 3,141,666

VILLAGE OF ONTONAGON**NOTES TO FINANCIAL STATEMENTS - MARCH 31, 2004****NOTE E - PROPRIETARY FUNDS - PROPERTY, PLANT, AND EQUIPMENT**

The components of property, plant, and equipment in Village proprietary funds at March 31, 2004 are summarized as follows:

	Sewer Fund	Water Fund	Equipment Fund
Land & Improvements	\$ 16,533	\$ 20,000	\$ -
Building	1,585,295	240,426	-
Lines and mains	6,244,147	17,563,814	-
Equipment	38,782	52,731	668,428
Vehicles	4,290	44,178	476,663
Total	7,889,047	17,921,149	1,145,091
Allowances for Depreciation	(1,799,488)	(1,193,905)	(733,554)
Balance	<u>\$ 6,089,559</u>	<u>\$ 16,727,244</u>	<u>\$ 411,537</u>

Property, plant, and equipment are recorded at cost and accounted for in the proprietary funds. Depreciation on such assets is charged as an expense against the operations of the funds on a straight-line basis. Depreciation is based on the estimated useful lives of the assets using 4-10 years for equipment and 10-50 years for property and plant.

NOTE F - ACCUMULATED UNPAID SICK LEAVE

Village employees are granted vacation and sick leave. The Village follows the accounting and reporting principles outlined in GASB 16 relative to these compensated absences.

Employees are allowed to accrue sick pay, subject to certain limitations and policy, that is payable under certain circumstances such as retirement or death.

Accrued sick leave that is expected to be liquidated with expendable available resources in the governmental funds is accrued in the general long-term debt account group. Total unpaid vacation and sick leave as of March 31, 2004 was \$52,973.

VILLAGE OF ONTONAGON
NOTES TO FINANCIAL STATEMENTS - MARCH 31, 2004

NOTE G - RESERVES AND RESTRICTED ASSETS - PROPRIETARY FUNDS

The ordinance authorizing issuance of the 1996 and 1997 Sanitary Sewage Disposal System Revenue Bonds required that specific accounts be established and monies deposited as follows:

Bond and Interest Reserve Account - Quarterly transfers are to be made equal to $\frac{1}{2}$ of the next interest payment due plus $\frac{1}{4}$ of the next principal payment due.

Sewer Bond Reserve Account - Excess funds of up to \$4,850 per quarter are to be transferred to this account until \$194,000 is accumulated.

The ordinance authorizing issuance of the General obligation Limited Tax Bonds, Series A and Series B, require that specific accounts be established and monies deposited as follows:

Debt Retirement Fund - An amount shall be levied upon the tax rolls that are sufficient to pay, when due, the principal and interest due on the bonds.

Water Bond Reserve Account - Excess funds of up to \$9,125 per quarter are to be transferred to this account until \$365,000 is accumulated.

Repair, Replacement, and Improvement Fund - Excess funds of up to \$18,487.50 per quarter, less the amount, if any, deposited in the bond Reserve account, shall be deposited into this account.

At March 31, 2004, the Village had established these accounts and had restricted cash, as required, as follows:

	REQUIREMENTS			Amount Funded in Restricted Cash Balance
	March 31, 2003	Additions (deletions)	March 31, 2004	
SEWER FUND				
Bond and interest reserve account	\$ 15,500	\$ 0	\$ 15,500	\$ 34,051
Bond reserve account	123,775	19,400	143,175	150,478
	<u>139,275</u>	<u>19,400</u>	<u>158,675</u>	<u>184,529</u>
WATER FUND				
Bond debt retirement fund	0	0	0	37,599
Water bond reserve account	73,000	36,500	109,500	109,500
Repair, Replacement, & Improvement	1,900	950	2,850	54,526
	<u>74,900</u>	<u>37,450</u>	<u>112,350</u>	<u>201,625</u>
	<u>\$ 214,175</u>	<u>\$ 56,850</u>	<u>\$ 271,025</u>	<u>\$ 386,154</u>

VILLAGE OF ONTONAGON
NOTES TO FINANCIAL STATEMENTS - MARCH 31, 2004

NOTE H - LONG-TERM DEBT

ENTERPRISE FUNDS

1996 Sanitary Sewage Disposal System Revenue Bonds

On October 2, 1996, the Village of Ontonagon authorized the sale of Sanitary Sewage Disposal System Revenue Bonds in the amount of \$3,000,000. The bonds were issued with an interest rate of 4.5% per annum with principal amounts payable September 1 and interest payable semi-annually on September 1 and March 1.

**SCHEDULE OF 1996 SANITARY SEWAGE
DISPOSAL SYSTEM REVENUE BONDS**
March 31, 2004

Year	September 1 Principal	September 1 Interest	March 1 Interest	Total
2004-2005	\$ 39,000	\$ 62,528	\$ 61,695	\$ 163,223
2005-2006	40,000	61,695	60,817	162,512
2006-2007	42,000	60,818	59,917	162,735
2007-2008	44,000	59,918	58,972	162,890
2008-2009	46,000	58,973	57,982	162,955
2009-2010	47,000	57,983	56,947	161,930
2010-2011	50,000	56,948	55,890	162,838
2011-2012	52,000	55,890	54,765	162,655
2012-2013	55,000	54,765	53,595	163,360
2013-2108	311,000	255,152	248,443	814,595
2018-2023	385,000	218,520	210,195	813,715
2023-2028	478,000	173,206	162,924	814,130
2028-2033	600,000	116,754	103,837	820,591
2033-2037	582,000	43,380	28,011	653,391
TOTAL	<u><u>\$ 2,771,000</u></u>	<u><u>\$ 1,336,530</u></u>	<u><u>\$ 1,273,990</u></u>	<u><u>\$ 5,381,520</u></u>

VILLAGE OF ONTONAGON
NOTES TO FINANCIAL STATEMENTS - MARCH 31, 2004

NOTE H - LONG-TERM DEBT (Continued)

1997 Sanitary Sewage Disposal System Revenue Bonds

On June 26, 1997, the Village of Ontonagon authorized the sale of Sanitary Sewage Disposal System Revenue Bonds in the amount of \$493,143. The bonds were issued at an interest rate of 2.25% per annum with principal amounts payable October 1 and interest payable semi-annually on April 1 and October 1.

SCHEDULE OF 1997 SANITARY SEWAGE
DISPOSAL SYSTEM REVENUE BONDS

March 31, 2004

Year	April Interest	October Interest	October Principal	Total
2004-2005	\$ 4,141	\$ 4,141	\$ 25,000	\$ 33,282
2005-2006	3,860	3,860	25,000	32,720
2006-2007	3,579	3,579	25,000	32,158
2007-2008	3,298	3,298	25,000	31,596
2008-2009	3,017	3,017	25,000	31,034
2009-2010	2,735	2,735	25,000	30,470
2010-2011	2,454	2,454	25,000	29,908
2011-2012	2,173	2,173	25,000	29,346
2012-2013	1,892	1,892	25,000	28,784
2013-2016	4,585	4,585	140,000	149,170
TOTAL	<u>\$ 31,734</u>	<u>\$ 31,734</u>	<u>\$ 365,000</u>	<u>\$ 428,468</u>

VILLAGE OF ONTONAGON
NOTES TO FINANCIAL STATEMENTS - MARCH 31, 2004

NOTE H - LONG-TERM DEBT (Continued)

2000 General Obligation Limited Tax Water Bonds, Series A and B

On October 1, 2000, the Village of Ontonagon authorized the sale of a Water Supply System Revenue Bond in the amount of \$6,685,000 (Series A \$3,500,000 and Series B \$3,185,000) for the purpose of constructing improvements to the Village's water supply system. The bonds were issued at an interest rate of 4.5% per annum with principal amounts payable October 1 and interest payable semi-annually on October 1 and April 1.

SCHEDULE OF 2000 GENERAL OBLIGATION
LIMITED TAX WATER BONDS, SERIES A
March 31, 2004

Year	April Interest	October Interest	October Principal	Total
2004-2005	\$ 77,153	\$ 77,153	\$ 37,000	\$ 191,306
2005-2006	76,320	76,320	39,000	191,640
2006-2007	75,443	75,443	42,000	192,886
2007-2008	74,498	74,498	43,000	191,996
2008-2009	73,530	73,530	45,000	192,060
2009-2010	72,518	72,518	47,000	192,036
2010-2011	71,460	71,460	49,000	191,920
2011-2012	70,358	70,358	51,000	191,716
2012-2013	69,210	69,210	53,000	191,420
2013-2018	326,882	326,882	307,000	960,764
2018-2023	289,058	289,058	383,000	961,116
2023-2028	241,966	241,966	477,000	960,932
2028-2033	183,309	183,309	592,000	958,618
2033-2038	110,342	110,342	740,000	960,684
2038-2040	23,850	23,857	524,000	571,707
TOTAL	<u>\$ 1,835,897</u>	<u>\$ 1,835,904</u>	<u>\$ 3,429,000</u>	<u>\$ 7,100,801</u>

VILLAGE OF ONTONAGON
NOTES TO FINANCIAL STATEMENTS - MARCH 31, 2004

NOTE H - LONG-TERM DEBT (Continued)

SCHEDULE OF 2000 GENERAL OBLIGATION
LIMITED TAX WATER BONDS, SERIES B
March 31, 2004

Year	April Interest	October Interest	October Principal	Total
2004-2005	\$ 70,223	\$ 70,223	\$ 35,000	\$ 175,446
2005-2006	69,435	69,435	36,000	174,870
2006-2007	68,625	68,625	37,000	174,250
2007-2008	67,793	67,793	39,000	174,586
2008-2009	66,915	66,915	41,000	174,830
2009-2010	65,993	65,993	43,000	174,986
2010-2011	65,025	65,025	45,000	175,050
2011-2012	64,013	64,013	47,000	175,026
2012-2013	62,955	62,955	49,000	174,910
2013-2018	297,272	297,272	279,000	873,544
2018-2023	263,026	263,026	346,000	872,052
2023-2028	220,343	220,343	432,000	872,686
2028-2033	167,153	167,153	540,000	874,306
2033-2038	100,712	100,712	672,000	873,424
2038-2040	21,916	21,916	480,000	523,832
TOTAL	<u>\$ 1,671,399</u>	<u>\$ 1,671,399</u>	<u>\$ 3,121,000</u>	<u>\$ 6,463,798</u>

VILLAGE OF ONTONAGON
NOTES TO FINANCIAL STATEMENTS - MARCH 31, 2004

NOTE H - LONG-TERM DEBT (Continued)

General Obligation Limited Tax Water Bonds, Series 2003

On October 13, 2003, the Village of Ontonagon authorized the sale of a Water Supply System Revenue Bond in the amount of \$777,000 for the purpose of constructing improvements to the Village's water supply system. The bonds were issued at an interest rate of 4.25% per annum with principal amounts payable October 1 and interest payable semi-annually on October 1 and April 1.

SCHEDULE OF GENERAL OBLIGATION
LIMITED TAX WATER BONDS, SERIES 2003
March 31, 2004

Year	April Interest	October Interest	October Principal	Total
2004-2005	\$ 9,632	\$ 16,511	\$ 8,000	\$ 34,143
2005-2006	16,341	16,341	8,000	40,682
2006-2007	16,171	16,171	8,000	40,342
2007-2008	16,001	16,001	9,000	41,002
2008-2009	15,810	15,810	9,000	40,620
2009-2010	15,619	15,619	9,000	40,238
2010-2011	15,428	15,428	10,000	40,856
2011-2012	15,215	15,215	10,000	40,430
2012-2013	15,003	15,003	11,000	41,006
2013-2018	71,358	71,358	61,000	203,716
2018-2023	64,303	64,303	75,000	203,606
2023-2028	55,632	55,632	92,000	203,264
2028-2033	44,944	44,944	115,000	204,888
2033-2038	31,663	31,663	140,000	203,326
2038-2040	16,338	16,339	212,000	244,677
TOTAL	<u>\$ 419,458</u>	<u>\$ 426,338</u>	<u>\$ 777,000</u>	<u>\$ 1,622,796</u>

VILLAGE OF ONTONAGON
NOTES TO FINANCIAL STATEMENTS - MARCH 31, 2004

NOTE H - LONG-TERM DEBT (Continued)

INTERNAL SERVICE FUND (EQUIPMENT FUND)

Fire Truck Installment - On December 8, 1998, the Village entered into a \$57,520 loan contract with USDA for the purpose of purchasing a fire truck. The loan was financed at an interest rate of 4.75% per annum. Principal amounts payable December 1 and interest payable bi-annually on June 1 and December 1.

Year	June Interest	December Interest	December Principal	Total
2004-2005	\$ 1,010	\$ 915	\$ 4,000	\$ 5,925
2005-2006	915	820	4,000	5,735
2006-2007	820	725	4,000	5,545
2007-2008	725	630	4,000	5,355
2008-2009	630	535	4,000	5,165
2009-2010	535	440	4,000	4,975
2010-2014	1,160	720	4,000	20,400
TOTAL	\$ 5,795	\$ 4,785	\$ 42,520	\$ 53,100

GENERAL LONG-TERM DEBT ACCOUNT GROUP

1998 Loan of Federal Funds - Payable to Michigan Jobs Commission

On 1998, the Village of Ontonagon entered into a \$315,000 loan contract with the Michigan Jobs Commission for the purpose of Renaissance Zone Industrial Park. The loan was financed at an interest rate of not less than 5% per annum. The maximum term of the loan is 20 years with no interest in the first 5 years. Interest begins to accrue in the 4th year. The debt (up to 90%) will be forgiven at the rate of \$20,000 per job created by the project.

Year	Interest	Principal	Total
2004-2005	\$ 0	\$ 0	\$ 0
2005-2006	15,750	0	15,750
2006-2007	15,750	14,598	30,348
2007-2008	15,021	15,327	30,348
2008-2009	14,254	16,094	30,348
2009-2010	13,449	16,899	30,348
2010-2011	12,604	17,744	30,348
2011-2012	11,717	18,631	30,348
2012-2013	10,786	19,562	30,348
2013-2018	38,240	113,500	151,740
2018-2020	8,399	82,645	91,044
TOTAL	\$ 155,970	\$ 315,000	\$ 470,970

VILLAGE OF ONTONAGON
NOTES TO FINANCIAL STATEMENTS – MARCH 31, 2004

NOTE H - LONG-TERM DEBT (Continued)

The following is a summary of the changes in the long-term debt for the year ended March 31, 2004:

	Balance 03/31/03	Increase	Decrease	Balance 03/31/04
1996 Sanitary Sewage Bonds	\$ 2,808,000	\$ 0	\$ 37,000	\$ 2,771,000
1997 Sanitary Sewage Bonds	390,000	0	25,000	365,000
2000 Water Bonds Series A	3,465,000	0	36,000	3,429,000
2000 Water Bonds Series B	3,154,000	0	33,000	3,121,000
2003 Water Bonds	0	777,000	0	777,000
Sub-Total Enterprise Funds	<u>9,817,000</u>	<u>777,000</u>	<u>131,000</u>	<u>10,463,000</u>
Fire Truck Purchase	45,520	0	3,000	42,520
Michigan Jobs Commission	<u>315,000</u>	<u>0</u>	<u>0</u>	<u>315,000</u>
Accrued Sick Leave	55,541	0	2,568	52,973
TOTAL	<u><u>\$ 10,233,061</u></u>	<u><u>\$ 777,000</u></u>	<u><u>\$ 136,568</u></u>	<u><u>\$ 10,873,493</u></u>

The aggregate amount of maturities on long-term debt by fund type for each of the next 10 years, and thereafter, is as follows:

ENTERPRISE FUNDS
March 31, 2004

	Principal	Interest	Total
2004-2005	\$ 144,000	\$ 312,954	\$ 456,954
2005-2006	148,000	315,554	463,554
2006-2007	154,000	311,121	465,121
2007-2008	160,000	306,484	466,484
2008-2009	166,000	301,669	467,669
2009-2010	171,000	296,674	467,674
2010-2011	179,000	291,522	470,522
2011-2012	185,000	286,147	471,147
2012-2013	193,000	280,570	473,570
2013-2018	1,098,000	1,309,245	2,407,245
2018-2023	1,189,000	1,198,905	2,387,905
2023-2028	1,479,000	931,326	2,410,326
2028-2033	1,847,000	677,097	2,524,097
2033-2038	2,134,000	355,401	2,489,401
2038-2040	<u>1,216,000</u>	<u>2,690,904</u>	<u>3,906,904</u>
	<u><u>\$ 10,463,000</u></u>	<u><u>\$ 9,865,573</u></u>	<u><u>\$ 20,328,573</u></u>

VILLAGE OF ONTONAGON
NOTES TO FINANCIAL STATEMENTS - MARCH 31, 2004

NOTE H - LONG-TERM DEBT (Continued)

INTERNAL SERVICE FUNDS

March 31, 2004

<u>Year</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2004-2005	\$ 1,925	\$ 4,000	\$ 5,925
2005-2006	1,735	4,000	5,735
2006-2007	1,545	4,000	5,545
2007-2008	1,355	4,000	5,355
2008-2009	1,165	4,000	5,165
2009-2010	975	4,000	4,975
2010-2014	1,880	18,520	20,400
TOTAL	\$ 10,580	\$ 42,520	\$ 53,100

NOTE I - SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The Village maintains three Enterprise Funds which provide water, sewer, and parking services. Segment information for the year ended March 31, 2004 is as follows:

	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Water Fund Construction</u>
Operating revenues	\$91,507	\$1,166,082	\$-
Depreciation	\$(154,939)	\$(348,789)	\$-
Income (loss) from operations	\$(136,986)	\$136,389	\$-
Non-operating revenues	\$198,728	\$4,128	\$-
Non-operating (expenditures)	\$(134,022)	\$(208,928)	\$-
Net Income (loss)	\$(72,280)	\$(117,241)	\$-
Property, Plant, & Equipment:			
Additions	\$-	\$2,347,393	\$-
Disposal	\$-	\$(48,830)	\$-
Total assets	\$6,425,992	\$17,244,274	\$64
Net working capital (deficit)	\$(14,029)	\$(75,679)	\$(64)
Long-term liabilities-payable from operating revenues	\$3,072,000	\$7,255,000	\$-
Total Equity	\$3,188,059	\$9,598,190	\$-

NOTE J - PENSION PLANS

The Village's defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The Village participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the MERS Retirement Board. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefits provisions of the participants in MERS. The Municipal Employees Retirement system of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement system of Michigan, 447 N. Canal Road, Lansing, MI 48917 or by calling (800) 767-6377.

VILLAGE OF ONTONAGON
NOTES TO FINANCIAL STATEMENTS - MARCH 31, 2004

NOTE J - PENSION PLANS (Continued)

The Village is required to contribute to the plan at an actuarially determined rate. The current rate, as a percent of annual covered payroll, is 12.18% for general employees and 13.83% for administrative employees. Village employees are required to contribute 0% of their annual covered payroll. The contribution requirements of the Village are established and may be amended by the Retirement Board of MERS. The contribution requirements of plan members are established and may be amended by the Village, depending on the MERS contribution program adopted by the Village.

During the fiscal year ended March 31, 2004, the Village of Ontonagon's contributions, totaling \$45,576, were made in accordance with contribution requirements determined by an actuarial valuation of the plan as of December 31, 1998. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level funding method, annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for their projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8 percent and annual salary increases of 4.5 percent based on an age related scale to reflect merit, longevity, and promotional salary increases.

NOTE K - DEFERRED COMPENSATION PLAN

The employees of the Village are allowed to contribute on a voluntary basis to a deferred compensation plan through payroll deductions. The plan is made available to all eligible employees by authority of Section 457 of the Internal Revenue Code (IRC), and is administered by PEBSCO. Employees may set aside and invest portions of their current income to meet their financial requirements and supplement their retirement and social security benefits.

Due to changes in the Internal Revenue Code, the Plan's assets are considered to be the property of the Plan's participants and are no longer subject to the Village's general creditors. Also, as the Village relies on a third party for administration and investment management of the plan, the Village is no longer required to report the 457 plan assets on its financial statements.

NOTE L - ONTONAGON MEMORIAL HOSPITAL

As discussed in Note A concerning the reporting entity, the hospital is considered a component unit of the Village of Ontonagon for financial reporting purposes.

The Ontonagon Memorial Hospital is audited by other auditors under a separate cover. The separate audited financial statement contains various notes which detail significant financial disclosures.

The hospital has issued revenue bonds in the name of the Village of Ontonagon. The balance of bonds payable at March 31, 2004 was \$45,000. Additionally, the hospital has capital leases payable of \$609,416, operating leases payable of \$252,145, land contracts payable of \$89,834, and a note payable to a bank of \$250,184.

VILLAGE OF ONTONAGON

NOTES TO FINANCIAL STATEMENTS - MARCH 31, 2004

NOTE M - COMMITMENTS AND CONTINGENCIES

—64 BRIDGE INFRASTRUCTURE PROJECT

The Village has been awarded a Michigan Community Development Block Grant in the amount of \$5,050,000. The project will allow for the replacement of the existing —64 swing bridge with a new fixed span bridge over the Ontonagon River within the corporate limits of the Village.

The Michigan Department of Transportation has estimated the cost of the project to be \$4,564,500 for alteration, reconstruction and relocation.

Through March 31, 2004, the Village received and expended \$2,871,916 of the grants.

MICHIGAN MUNICIPAL BOND AUTHORITY

On July 6, 2004, bonds were authorized for the refunding of General Obligation Limited Tax Bonds Series 2000A, 2000B and 2003 through the Michigan Municipal Bond Authority in the amount of \$7,370,000. The bonds were obtained to take advantage of a lower interest rate.

NOTE N - RISK MANAGEMENT

The Village is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Village manages its liability workers' compensation and property risk, by participating in Michigan Municipal Risk Management Authority Liability and Property Pool, a public entity risk pool providing property and liability coverage to its participating members. The Village pays an annual premium for its insurance coverage. The Michigan Municipal Risk Management Authority Liability and Property Pool is self-sustaining through member premiums and provides, subject to certain deductibles, occurrence-based casualty coverage for each incident and occurrence-based property coverage to its members by internally assuring certain risks and reinsuring risks through commercial companies. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

NOTE O - CONTINGENT LIABILITIES

Solid-Waste Landfill

The Village was an operator of a municipal solid-waste landfill which was closed in 1987. The Village has not recorded or recognized any costs or liability for the landfill post-closure care requirements. Village engineers have estimated the landfill clean-up cost to be approximately \$350,000.

The Village is seeking financial assistance from the State of Michigan (the landowner) and from Ontonagon County in connection with this matter.

SUPPLEMENTAL FINANCIAL INFORMATION

VILLAGE OF ONTONAGON
GENERAL FUND
BALANCE SHEETS
March 31, 2004
With Comparative Totals at March 31, 2003

	<u>2004</u>	<u>2003</u>
ASSETS:		
Cash and equivalents	\$ 463,203	\$ 437,372
Taxes receivable	22,719	25,743
Accounts receivable	11,650	10,241
Due from other funds	166,472	110,215
Due from component unit	150,222	114,556
Inventory	-	1,580
TOTAL ASSETS	<u>\$ 814,266</u>	<u>\$ 699,707</u>
LIABILITIES:		
Accounts payable	\$ 8,240	\$ 17,236
Accrued expenses	13,658	14,422
Due to other funds	116,048	26,095
Deferred revenue	6,486	12,017
TOTAL LIABILITIES	<u>144,432</u>	<u>69,770</u>
FUND EQUITY:		
Fund balance	669,834	629,937
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 814,266</u>	<u>\$ 699,707</u>

VILLAGE OF ONTONAGON
GENERAL FUND
DETAIL STATEMENTS OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE
Year Ended March 31, 2004
With Comparative Actual Amounts for Year Ended March 31, 2003

	<u>2004</u>	<u>2003</u>
REVENUES:		
Current taxes:		
Property taxes	\$ 350,385	\$ 380,538
Penalties and interest on tax	1,217	287
Payments in lieu of tax	8,365	328
Administration fees	7,018	4,411
Total current taxes	<u>366,985</u>	<u>385,564</u>
State revenue:		
Sales tax	195,374	209,056
Liquor tax	3,668	4,001
Grants	5,000	4,001
Total state revenue	<u>204,042</u>	<u>213,057</u>
Federal grant	<u>64,200</u>	<u>60,300</u>
Charges for services:		
Marina	52,996	47,587
Fines, forfeitures and penalties:		
Ordinance fines	86	90
Interest and rents:		
Interest	1,407	2,123
Rents	4,197	1,800
Total interest and rents	<u>5,604</u>	<u>3,923</u>
Contribution from other units:		
Fire protection fees	10,256	10,000
Material sales	127	3,423
Total contribution from other units	<u>10,383</u>	<u>13,423</u>
Other revenue:		
Sale of assets	19,499	22,952
Contributions	8,993	6,391
Refunds/reimbursements	27,238	15,811
Miscellaneous	-	274
Health services payments from retirees	52,108	47,783
Total other revenue	<u>107,838</u>	<u>93,211</u>
TOTAL REVENUES	<u>812,134</u>	<u>817,155</u>

VILLAGE OF ONTONAGON
GENERAL FUND
DETAIL STATEMENTS OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE
Year Ended March 31, 2004
With Comparative Actual Amounts for Year Ended March 31, 2003

EXPENDITURES:	2004	2003
General Government:		
Board/Council/Legislative:		
Salaries, wages, and fringe benefits	16,067	14,179
Supplies, materials and other	723	744
Other services and support	7,751	7,403
Total board/council/legislative	24,541	22,326
Executive/Manager:		
Salaries, wages, and fringe benefits	13,350	16,885
Insurance	400	30
Utilities	297	614
Other services and support	8,782	8,719
Total executive/manager	22,829	26,248
Village office:		
Salaries, wages, and fringe benefits	6,162	10,353
Supplies, materials and other	12,228	18,045
Insurance	4,060	2,533
Utilities	5,039	4,104
Other services and support	3,851	808
Capital outlay	270	3,386
Total village office	31,610	39,229
Chamber Building:		
Supplies, materials and other	-	118
Utilities	668	561
Total chamber building	668	679
Clerk:		
Salaries, wages, and fringe benefits	11,148	15,604
Supplies, materials and other	1,106	1,171
Insurance	1,500	1,200
Other services and support	199	572
Total clerk	13,953	18,547
Treasurer:		
Salaries, wages, and fringe benefits	4,125	12,099
Supplies, materials and other	-	93
Other services and support	292	337
Total treasurer	4,417	12,529

VILLAGE OF ONTONAGON
GENERAL FUND
DETAIL STATEMENTS OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE
Year Ended March 31, 2004
With Comparative Actual Amounts for Year Ended March 31, 2003

	2004	2003
EXPENDITURES: (Continued)		
Legal, accounting and audit:		
Other services and support	4,232	2,397
Assessor	1,358	1,221
Elections:		
Salaries, wages, and fringe benefits	503	-
Supplies, materials and other	1,216	-
Other services and support	180	-
Total elections	1,899	-
Total general government	105,507	123,176
Public Safety:		
Other services and support	50,752	73,996
Fire protection:		
Salaries, wages, and fringe benefits	2,520	8,599
Supplies, materials and other	17,549	4,708
Insurance	4,717	3,770
Utilities	10,628	8,911
Other services and support	27,250	29,655
Capital outlay	69,299	68,347
Total fire protection	131,963	123,990
Total public safety	182,715	197,986
Public Works:		
Department of Public Works:		
Salaries, wages, and fringe benefits	15,745	16,708
Supplies, materials and other	14,330	11,165
Repair and maintenance	1,368	18
Insurance	7,058	4,000
Utilities	419	69
Other services and support	11,344	5,579
Capital outlay	6,121	5,970
Total department of public works	56,385	43,509
Street lighting:		
Utilities	30,296	29,761
Total public works	73,270	83,156

VILLAGE OF ONTONAGON
GENERAL FUND
DETAIL STATEMENTS OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE
Year Ended March 31, 2004
With Comparative Actual Amounts for Year Ended March 31, 2003

	<u>2004</u>	<u>2003</u>
EXPENDITURES: (Continued)		
Recreation and Culture:		
Parks:		
Salaries, wages, and fringe benefits	3,556	2,710
Supplies, materials and other	4,056	6,831
Insurance	2,100	1,100
Utilities	18,889	21,332
Other services and support	1,317	1,466
Capital outlay	-	300
Total parks	<u>29,918</u>	<u>33,739</u>
Marina:		
Salaries, wages, and fringe benefits	14,631	15,176
Supplies, materials and other	7,776	11,226
Repair and maintenance	403	603
Insurance	2,000	1,300
Utilities	4,441	2,102
Other services and support	1,904	1,213
Capital outlay	-	490
Total marina	<u>31,155</u>	<u>32,110</u>
Total recreation and culture	<u>61,073</u>	<u>65,849</u>
Community Promotion:		
Supplies, materials and other	1,249	2,424
Utilities	305	518
Other services and support	13,681	10,459
Capital outlay	66	66,321
Total community promotion	<u>15,301</u>	<u>79,722</u>
Other:		
Insurance and fringe benefits	125,960	31,323
TOTAL EXPENDITURES	<u>577,237</u>	<u>571,326</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>234,897</u>	<u>245,829</u>
OTHER FINANCING SOURCES (USES):		
Operating transfers in	-	5,000
Operating transfers out	(195,000)	(242,000)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(195,000)</u>	<u>(237,000)</u>

VILLAGE OF ONTONAGON
GENERAL FUND
DETAIL STATEMENTS OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE
Year Ended March 31, 2004
With Comparative Actual Amounts for Year Ended March 31, 2003

	<u>2004</u>	<u>2003</u>
EXPENDITURES: (Continued)		
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	39,897	8,829
FUND BALANCE, BEGINNING OF YEAR	629,937	621,108
FUND BALANCE, END OF YEAR	<u>\$ 669,834</u>	<u>\$ 629,937</u>

VILLAGE OF ONTONAGON
SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEETS

March 31, 2004

With Comparative Totals at March 31, 2003

	Major Street	Local Street	Road	Totals (Memorandum Only)	
				2004	2003
ASSETS:					
Cash and equivalents	\$ 203,962	\$ 183,711	\$ 132,906	\$ 520,579	\$ 432,430
Taxes receivable	-	-	65,843	65,843	71,429
Due from other funds	-	22,895	41,699	64,594	58,527
Due from component unit	-	-	43	43	43
Due from other governmental units	22,113	10,581	-	32,694	29,309
Total assets	<u>\$ 226,075</u>	<u>\$ 217,187</u>	<u>\$ 240,491</u>	<u>\$ 683,753</u>	<u>\$ 591,738</u>
LIABILITIES:					
Liabilities:					
Accounts payable	\$ 7,157	\$ 5,760	\$ -	\$ 12,917	\$ 4,515
Accrued expenses	713	568	-	1,281	1,378
Due to other funds	57,105	46,754	-	103,859	83,808
Total liabilities	<u>64,975</u>	<u>53,082</u>	<u>-</u>	<u>118,057</u>	<u>89,701</u>
FUND EQUITY:					
Fund balance:					
Unreserved - Undesignated	161,100	164,105	240,491	565,696	502,037
TOTAL LIABILITIES AND FUND EQUITY	<u><u>\$ 226,075</u></u>	<u><u>\$ 217,187</u></u>	<u><u>\$ 240,491</u></u>	<u><u>\$ 683,753</u></u>	<u><u>\$ 591,738</u></u>

VILLAGE OF ONTONAGON
SPECIAL REVENUE FUNDS
COMBINING STATEMENTS OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES

March 31, 2004

With Comparative Actual Amounts for Year Ended March 31, 2003

	Major Street	Local Street	Road	Totals (Memorandum Only)	
				2004	2003
REVENUES:					
Current taxes	\$ -	\$ -	\$ 138,937	\$ 138,937	\$ 156,978
State revenue	131,418	71,952	-	203,370	188,648
Fines, forfeitures and penalties	-	-	15	15	-
Fees	-	-	-	-	2,360
Interest and rents	732	540	2,397	3,669	1,854
TOTAL REVENUES	132,150	72,492	141,349	345,991	349,840
EXPENDITURES:					
Salaries, wages, and fringe benefits	70,662	64,792	-	135,454	146,235
Supplies, materials and other	7,562	3,667	-	11,229	26,949
Insurance	5,400	2,500	-	7,900	7,341
Other services and support	65,720	61,004	1,025	127,749	100,374
Total expenditures	149,344	131,963	1,025	282,332	280,899
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(17,194)	(59,471)	140,324	63,659	68,941
OTHER FINANCING SOURCES (USES):					
Operating transfers in	112,800	203,975	-	316,775	100,000
Operating transfers out	-	-	(316,775)	(316,775)	(124,000)
TOTAL OTHER FINANCING SOURCES (USES)	112,800	203,975	(316,775)	-	(24,000)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	95,606	144,504	(176,451)	63,659	44,941
FUND BALANCE, BEGINNING OF YEAR	65,494	19,601	416,942	502,037	457,096
FUND BALANCE, END OF YEAR	\$ 161,100	\$ 164,105	\$ 240,491	\$ 565,696	\$ 502,037

VILLAGE OF ONTONAGON
ENTERPRISE FUNDS
COMBINING BALANCE SHEETS

March 31, 2004

With Comparative Totals at March 31, 2003

	Water Plant/System Construction	Sewer Disposal System	Water Supply System	Totals (Memorandum Only)	
				2004	2003
ASSETS:					
Current assets:					
Cash and equivalents	\$ -	\$ 143,902	\$ 135,310	\$ 279,212	\$ 220,245
Accounts receivable	-	8,002	131,586	139,588	112,627
Due from other funds	-	-	47,984	47,984	37,743
Due from component unit	-	-	525	525	-
Total current assets	-	151,904	315,405	467,309	370,615
Restricted assets:					
Restricted cash	64	184,529	201,625	386,218	397,474
Property, plant and equipment:					
Property, plant and equipment	-	7,889,047	17,921,149	25,810,196	23,511,633
Accumulated depreciation & amortization	-	(1,799,488)	(1,193,905)	(2,993,393)	(2,647,213)
Total property, plant and equipment	-	6,089,559	16,727,244	22,816,803	20,864,420
TOTAL ASSETS	\$ 64	\$ 6,425,992	\$17,244,274	\$23,670,330	\$21,632,509
LIABILITIES:					
Current liabilities:					
Accounts payable	\$ -	\$ 259	\$ 24,770	\$ 25,029	\$ 61,446
Retainage payable	-	-	266,747	266,747	98,539
Accrued expenses	-	11,033	7,904	18,937	17,954
Customer deposits	-	-	7,751	7,751	7,371
Due to other funds	-	90,641	11,912	102,553	90,859
Due to other governmental units	64	-	-	64	80
Current maturities on long term debt	-	64,000	72,000	136,000	131,000
Total current liabilities	64	165,933	391,084	557,081	407,249
Long-term liabilities:					
Revenue bonds payable	-	3,072,000	7,255,000	10,327,000	9,686,000
TOTAL LIABILITIES	64	3,237,933	7,646,084	10,884,081	10,093,249
FUND EQUITY:					
Contributed capital	-	2,943,489	9,669,735	12,613,224	11,239,818
Retained earnings:					
Reserved	-	184,409	201,624	386,033	397,394
Unreserved - Undesignated	-	60,161	(273,169)	(213,008)	(97,952)
Total retained earnings	-	244,570	(71,545)	173,025	299,442
TOTAL FUND EQUITY	-	3,188,059	9,598,190	12,786,249	11,539,260
TOTAL LIABILITIES AND FUND EQUITY	\$ 64	\$ 6,425,992	\$17,244,274	\$23,670,330	\$21,632,509

VILLAGE OF ONTONAGON
ENTERPRISE FUNDS
COMBINING STATEMENTS OF REVENUES, EXPENSES, AND CHANGES
IN RETAINED EARNINGS

March 31, 2004
With Comparative Actual Amounts for Year Ended March 31, 2003

	Water Plant/System Construction	Sewer Disposal System	Water Supply System	Totals (Memorandum Only)	
				2004	2003
OPERATING REVENUES:					
Sales and charges for services	\$ -	\$ 88,395	\$ 785,291	\$ 873,686	\$ 722,664
Fines, forfeitures and penalties	-	3,112	6,635	9,747	3,284
Other revenue	-	-	374,156	374,156	151,784
TOTAL OPERATING REVENUES	-	91,507	1,166,082	1,257,589	877,732
EXPENSES:					
Salaries, wages, and fringe benefits	-	35,180	279,937	315,117	429,315
Supplies, materials and other	-	3,586	58,031	61,617	104,023
Repair and maintenance	-	-	1,052	1,052	2,242
Insurance	-	9,249	16,606	25,855	18,613
Utilities	-	21,383	100,444	121,827	98,924
Other services and support	-	4,156	224,834	228,990	71,158
Depreciation	-	154,939	348,789	503,728	421,109
Total operating expenses	-	228,493	1,029,693	1,258,186	1,145,384
OPERATING INCOME(LOSS)	-	(136,986)	136,389	(597)	(267,652)
NON-OPERATING REVENUES (EXPENSES):					
Loss on disposal of assets	-	-	(48,830)	(48,830)	-
Interest income	-	3,728	4,128	7,856	17,034
Interest expense	-	(134,022)	(148,928)	(282,950)	(435,581)
Operating transfers in	-	195,000	-	195,000	195,000
Operating transfers out	-	-	(60,000)	(60,000)	-
TOTAL NON-OPERATING REVENUES (EXPENSES)	-	64,706	(253,630)	(188,924)	(223,547)
NET INCOME(LOSS)	-	(72,280)	(117,241)	(189,521)	(491,199)
RETAINED EARNINGS(DEFICIT), BEGINNING OF YEAR	-	263,326	36,116	299,442	598,727
ADJUSTMENTS TO FUND EQUITY:					
Contribution to contributed capital	-	-	(123,000)	(123,000)	-
Adjust reserve retained earnings	-	-	(18,391)	(18,391)	-
Add depreciation on fixed assets acquired with contributed capital	-	53,524	150,971	204,495	191,914
RETAINED EARNINGS(DEFICIT), END OF YEAR	\$ -	\$ 244,570	\$ (71,545)	\$ 173,025	\$ 299,442

VILLAGE OF ONTONAGON
ENTERPRISE FUNDS
COMBINING STATEMENTS OF CASH FLOWS
Year Ended March 31, 2004

	Water Construction Fund	Sewer Disposal System	Water Supply System	Totals (Memorandum Only)
	2004	2004	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES				
Operating income (loss)	\$ 0	\$ (136,986)	\$ 136,389	\$ (597)
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation	0	154,939	348,789	503,728
Loss on disposal of fixed assets	0	0	(48,830)	(48,830)
(Increase) decrease in accounts receivable	37,529	569	(65,060)	(26,962)
(Increase) decrease in due from other funds	0	214	(10,455)	(10,241)
Increase (decrease) in due from component unit	0	0	525	525
Increase (decrease) in accounts payable	0	(1,145)	(35,272)	(36,417)
Increase (decrease) in retainage payable	0	0	168,208	168,208
Increase (decrease) in utility deposits	0	0	380	380
Increase (decrease) in accrued expenses	0	480	503	983
Increase (decrease) in due to government units	(16)	0	0	(16)
Increase (decrease) in due to other funds	(37,529)	78,508	(29,284)	11,695
NET CASH PROVIDED BY OPERATING ACTIVITIES	(16)	96,579	465,893	562,456
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:				
Operating transfers in (out)	0	195,000	(60,000)	135,000
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	0	195,000	(60,000)	135,000
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of fixed assets	0	0	(2,475,551)	(2,475,551)
Interest on investments	0	3,728	4,128	7,856
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	0	3,728	(2,471,423)	(2,467,695)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from long-term debt	0	0	777,000	777,000
Proceeds from federal grant	0	0	1,454,900	1,454,900
Interest paid on long-term debt	0	(134,022)	(148,928)	(282,950)
Repayment of long-term debt	0	(62,000)	(69,000)	(131,000)
NET CASH PROVIDED BY FINANCING ACTIVITIES	0	(196,022)	2,013,972	1,817,950
NET INCREASE (DECREASE) IN CASH	(16)	99,285	(51,558)	47,711
CASH AT BEGINNING OF YEAR	80	229,146	388,493	617,719
CASH AT END OF YEAR	64	328,431	336,935	665,430
				\$ 617,719

VILLAGE OF ONTONAGON
EQUIPMENT FUND
BALANCE SHEETS
March 31, 2004
With Comparative Totals at March 31, 2003

	2004	2003
ASSETS:		
Cash and equivalents	\$ 209,523	\$ 141,074
Due from other funds	49,872	13,591
Property, plant and equipment	1,145,091	1,119,226
Accumulated depreciation & amortization	(733,554)	(643,697)
TOTAL ASSETS	<u>\$ 670,932</u>	<u>\$ 630,194</u>
LIABILITIES:		
Accounts payable	\$ 2,120	\$ 3,312
Accrued expenses	-	237
Due to other funds	5,832	19,392
Due to component unit	862	1,014
Notes payable	42,520	45,520
TOTAL LIABILITIES	<u>51,334</u>	<u>69,475</u>
FUND EQUITY:		
Contributed capital	248,780	248,780
Retained earnings	370,818	311,939
TOTAL FUND EQUITY	<u>619,598</u>	<u>560,719</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 670,932</u>	<u>\$ 630,194</u>

VILLAGE OF ONTONAGON
EQUIPMENT FUND
DETAIL STATEMENTS OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE
Year Ended March 31, 2004
With Comparative Actual Amounts for Year Ended March 31, 2003

	<u>2004</u>	<u>2003</u>
OPERATING REVENUES:		
Equipment rental	\$ 164,003	\$ 164,799
EXPENSES:		
Salaries, wages, and fringe benefits	22,719	21,055
Supplies, materials and other	19,787	12,355
Repair and maintenance	16,919	20,101
Insurance	1,746	1,410
Utilities	4,941	3,792
Other services and support	7,921	11,472
Depreciation	89,857	88,424
Total expenses	<u>163,890</u>	<u>158,609</u>
OPERATING INCOME	113	6,190
NON-OPERATING REVENUES (EXPENSES):		
Loss on sale of assets	-	(7,950)
Interest income	857	1,280
Interest expense	(2,091)	(4,352)
Operating transfers out	60,000	-
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>58,766</u>	<u>(11,022)</u>
NET INCOME (LOSS)	58,879	(4,832)
RETAINED EARNINGS, BEGINNING OF YEAR	560,719	565,551
RETAINED EARNINGS, END OF YEAR	<u>\$ 619,598</u>	<u>\$ 560,719</u>

DEBT SCHEDULES

VILLAGE OF ONTONAGON - DEBT SCHEDULES
LONG-TERM DEBT ACCOUNT GROUP

1998 Loan of Federal Funds - Payable to Michigan Jobs Commission

Date of Loan: 1998
 Purpose: Renaissance Zone Industrial Park
 Original Loan Amount: \$315,000
 Interest Rate: Not less than 5%
 Term: Maximum term - 20 years with no interest in the first 5 years. Interest begins to accrue in the 4th year. The debt (up to 90%) will be forgiven at the rate of \$20,000 per job created by the project.

The remaining (maximum) repayment of interest and principal summarized by year is as follows:

Year Ended March 31, 2004	Interest	Principal	Total
2003	\$ 0	\$ 0	\$ 0
2004	0	0	0
2005	15,750	0	15,750
2006	15,750	14,598	30,348
2007	15,021	15,327	30,348
2008	14,254	16,094	30,348
2009	13,449	16,899	30,348
2010	12,604	17,744	30,348
2011	11,717	18,631	30,348
2012	10,786	19,562	30,348
2013	9,807	20,541	30,348
2014	8,780	21,568	30,348
2015	7,702	22,646	30,348
2016	6,570	23,778	30,348
2017	5,381	24,967	30,348
2018	4,132	26,216	30,348
2019	2,822	27,526	30,348
2020	1,445	28,903	30,348
	<u>\$ 155,970</u>	<u>\$ 315,000</u>	<u>\$ 470,970</u>

VILLAGE OF ONTONAGON – DEBT SCHEDULES
ENTERPRISE FUND

1996 Sanitary Sewage Disposal System Revenue Bonds

Date of Loan: October 2, 1996 Original Loan Amount: \$3,000,000
Interest Rate: 4.5% Term: 40 years

Repayment of principal and interest in bi-annual payments summarized by year is as follows:

Year Ended March 31, 2003	Principal September	Interest		Total
		September	March	
2003	\$ 35,000	\$ 64,103	\$ 63,315	\$ 162,418
2004	37,000	63,315	62,527	162,842
2005	39,000	62,528	61,695	163,223
2006	40,000	61,695	60,817	162,512
2007	42,000	60,818	59,917	162,735
2008	44,000	59,918	58,972	162,890
2009	46,000	58,973	57,982	162,955
2010	47,000	57,983	56,947	161,930
2011	50,000	56,948	55,890	162,838
2012	52,000	55,890	54,765	162,655
2013	55,000	54,765	53,595	163,360
2014	56,000	53,595	52,357	161,952
2015	60,000	52,358	51,097	163,455
2016	62,000	51,098	49,747	162,845
2017	65,000	49,748	48,352	163,100
2018	68,000	48,353	46,890	163,243
2019	70,000	46,890	45,360	162,250
2020	74,000	45,360	43,785	163,145
2021	78,000	43,785	42,120	163,905
2022	80,000	42,120	40,365	162,485
2023	83,000	40,365	38,565	161,930
2024	87,000	38,565	36,698	162,263
2025	92,000	36,698	34,740	163,438
2026	95,000	34,740	32,670	162,410
2027	100,000	32,670	30,533	163,203
2028	104,000	30,533	28,283	162,816
2029	110,000	28,283	25,943	164,226
2030	115,000	25,943	23,468	164,411
2031	120,000	23,468	20,880	164,348
2032	125,000	20,880	18,180	164,060
2033	130,000	18,180	15,366	163,546
2034	136,000	15,366	12,442	163,808
2035	142,000	12,443	9,382	163,825
2036	149,000	9,383	6,187	164,570
2037	155,000	6,188	-	161,188
	<u>\$ 2,843,000</u>	<u>\$ 1,463,948</u>	<u>\$ 1,399,832</u>	<u>\$ 5,706,780</u>

VILLAGE OF ONTONAGON - DEBT SCHEDULES
ENTERPRISE FUND

1997 Sanitary Sewage Disposal System Revenue Bonds

Date of Loan: June 26, 1997 Original Loan Amount: \$493,143
Interest Rate: 2.25% Term: 20 years

Repayment of principal and interest in bi-annual payments summarized by year is as follows:

Year Ended March 31	Interest		Principal	Total
	April	October	October	
2003	\$ 4,648	\$ 4,648	\$ 20,000	\$ 29,296
2004	4,423	4,423	25,000	33,846
2005	4,141	4,141	25,000	33,282
2006	3,860	3,860	25,000	32,720
2007	3,579	3,579	25,000	32,158
2008	3,298	3,298	25,000	31,596
2009	3,017	3,017	25,000	31,034
2010	2,735	2,735	25,000	30,470
2011	2,454	2,454	25,000	29,908
2012	2,173	2,173	25,000	29,346
2013	1,892	1,892	25,000	28,784
2014	1,610	1,610	25,000	28,220
2015	1,329	1,329	30,000	32,658
2016	992	992	30,000	31,984
2017	654	654	55,000	56,308
TOTALS	<u>\$ 40,805</u>	<u>\$ 40,805</u>	<u>\$ 410,000</u>	<u>\$ 491,610</u>

VILLAGE OF ONTONAGON - DEBT SCHEDULES
ENTERPRISE FUND

2000 General Obligation Limited Tax Water Bonds, Series A

Date of Loan: October 1, 2000 Original Loan Amount: \$3,500,000
Interest Rate: 4.50% Term: 40 years

Repayment of principal and interest in bi-annual payments summarized by year is as follows:

Year Ended March 31	Interest		Principal	Total
	April	October	October	
2003	\$ 78,750	\$ 78,750	\$ 35,000	\$ 192,500
2004	77,963	77,963	36,000	191,926
2005	77,153	77,153	37,000	191,306
2006	76,320	76,320	39,000	191,640
2007	75,443	75,443	42,000	192,886
2008	74,498	74,498	43,000	191,996
2009	73,530	73,530	45,000	192,060
2010	72,518	72,518	47,000	192,036
2011	71,460	71,460	49,000	191,920
2012	70,358	70,358	51,000	191,716
2013	69,210	69,210	53,000	191,420
2014	68,018	68,018	56,000	192,036
2015	66,758	66,758	59,000	192,516
2016	65,430	65,430	61,000	191,860
2017	64,058	64,058	64,000	192,116
2018	62,618	62,618	67,000	192,236
2019	61,110	61,110	70,000	192,220
2020	59,535	59,535	73,000	192,070
2021	57,893	57,893	77,000	192,786
2022	56,160	56,160	80,000	192,320
2023	54,360	54,360	83,000	191,720
2024	52,493	52,493	87,000	191,986
2025	50,535	50,535	91,000	192,070
2026	48,488	48,488	95,000	191,976
2027	46,350	46,350	100,000	192,700
2028	44,100	44,100	104,000	192,200
2029	41,760	41,760	109,000	192,520
2030	39,308	39,308	113,000	191,616
2031	36,765	36,765	117,000	190,530
2032	34,133	34,133	124,000	192,266
2033	31,343	31,343	129,000	191,686
2034	28,440	28,440	135,000	191,880
2035	25,403	25,403	142,000	192,806
2036	22,208	22,208	148,000	192,416
2037	18,878	18,878	154,000	191,756
2038	15,413	15,413	161,000	191,826
2039	11,790	11,790	168,000	191,580
2040	8,010	8,010	176,000	192,020
2041	4,050	4,057	180,000	188,107
TOTALS	<u>\$ 1,992,610</u>	<u>\$ 1,992,617</u>	<u>\$ 3,500,000</u>	<u>\$ 7,485,227</u>

VILLAGE OF ONTONAGON – DEBT SCHEDULES
ENTERPRISE FUND

2000 General Obligation Limited Tax Water Bonds, Series B

Date of Loan: October 1, 2000 Original Loan Amount: \$3,185,000
Interest Rate: 4.50% Term: 40 years

Repayment of principal and interest in bi-annual payments summarized by year is as follows:

Year Ended March 31	Interest		Principal October	Total
	April	October		
2003	\$ 71,663	\$ 71,663	\$ 31,000	\$ 174,326
2004	70,965	70,965	33,000	174,930
2005	70,223	70,223	35,000	175,446
2006	69,435	69,435	36,000	174,870
2007	68,625	68,625	37,000	174,250
2008	67,793	67,793	39,000	174,586
2009	66,915	66,915	41,000	174,830
2010	65,993	65,993	43,000	174,986
2011	65,025	65,025	45,000	175,050
2012	64,013	64,013	47,000	175,026
2013	62,955	62,955	49,000	174,910
2014	61,853	61,853	51,000	174,706
2015	60,705	60,705	53,000	174,410
2016	59,513	59,513	56,000	175,026
2017	58,253	58,253	58,000	174,506
2018	56,948	56,948	61,000	174,896
2019	55,575	55,575	63,000	174,150
2020	54,158	54,158	66,000	174,316
2021	52,673	52,673	69,000	174,346
2022	51,120	51,120	72,000	174,240
2023	49,500	49,500	76,000	175,000
2024	47,790	47,790	79,000	174,580
2025	46,013	46,013	83,000	175,026
2026	44,145	44,145	86,000	174,290
2027	42,210	42,210	90,000	174,420
2028	40,185	40,185	94,000	174,370
2029	38,070	38,070	98,000	174,140
2030	35,865	35,865	103,000	174,730
2031	33,548	33,548	109,000	176,096
2032	31,095	31,095	112,000	174,190
2033	28,575	28,575	118,000	175,150
2034	25,920	25,920	123,000	174,840
2035	23,153	23,153	128,000	174,306
2036	20,273	20,273	134,000	174,546
2037	17,258	17,258	140,000	174,516
2038	14,108	14,108	147,000	175,216
2039	10,800	10,800	153,000	174,600
2040	7,358	7,358	160,000	174,716
2041	3,758	3,765	167,000	174,523
TOTALS	\$ 1,814,027	\$ 1,814,034	\$ 3,185,000	\$ 6,813,061

VILLAGE OF ONTONAGON – DEBT SCHEDULES
ENTERPRISE FUND

General Obligation Limited Tax Water Bonds, Series 2003

Date of Loan: October 13, 2003 Original Loan Amount: \$777,000
Interest Rate: 4.25% Term: 40 years

Repayment of principal and interest in bi-annual payments summarized by year is as follows:

Year Ended March 31	Interest		Principal October	Total
	April	October		
2005	\$ 9,632	\$ 16,511	\$ 8,000	\$ 34,143
2006	16,341	16,341	8,000	40,683
2007	16,171	16,171	8,000	40,343
2008	16,001	16,001	9,000	41,003
2009	15,810	15,810	9,000	40,620
2010	15,619	15,619	9,000	40,238
2011	15,428	15,428	10,000	40,855
2012	15,215	15,215	10,000	40,430
2013	15,003	15,003	11,000	41,006
2014	14,769	14,769	11,000	40,538
2015	14,535	14,535	12,000	41,070
2016	14,280	14,280	12,000	40,560
2017	14,025	14,025	13,000	41,050
2018	13,749	13,749	13,000	40,498
2019	13,473	13,473	14,000	40,945
2020	13,175	13,175	14,000	40,350
2021	12,878	12,878	15,000	40,755
2022	12,559	12,559	16,000	41,118
2023	12,219	12,219	16,000	40,438
2024	11,878	11,878	17,000	40,756
2025	11,518	11,518	18,000	41,035
2026	11,135	11,135	18,000	40,270
2027	10,753	10,753	19,000	40,505
2028	10,349	10,349	20,000	40,698
2029	9,924	9,924	21,000	40,848
2030	9,478	9,478	22,000	40,955
2031	9,010	9,010	23,000	41,020
2032	8,521	8,521	24,000	41,043
2033	8,011	8,011	25,000	41,023
2034	7,480	7,480	26,000	40,960
2035	6,928	6,928	27,000	40,855
2036	6,354	6,354	28,000	40,708
2037	5,759	5,759	29,000	40,518
2038	5,143	5,143	30,000	40,285
2039	4,505	4,505	32,000	41,010
2040	3,825	3,825	33,000	40,650
2041	3,124	3,124	34,000	40,248
2042	2,401	2,401	36,000	40,803
2043	1,636	1,636	37,000	40,273
2044	850	850	40,000	41,700
TOTALS	\$ 419,458	\$ 426,338	\$ 777,000	\$ 1,622,797

FEDERAL AWARDS PROGRAMS



Bruce A Rukkila, CPA, PC

Full Service Accounting Firm
for the Western Upper Peninsula

310 Sheldon Avenue • Houghton MI 49931
(906) 482-6601 • Fax: (906) 482-9046
e-mail: help@brucerukkila.com
www.bruцерukkila.com

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Honorable President and Members of the Village Council
Village of Ontonagon
Ontonagon, Michigan

We have audited the financial statements of the Village of Ontonagon as of and for the year ended March 31, 2004, and have issued our report thereon dated July 20, 2004. We conducted our audit in accordance with auditing standards and the standards generally accepted in the United States of America applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Village of Ontonagon's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village of Ontonagon's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the audit committee, management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Bruce A. Rukkila, CPA, PC
Certified Public Accountants

July 20, 2004



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**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Honorable President and Members of the Village Council
Village of Ontonagon
Ontonagon, Michigan

Compliance

We have audited the compliance of the Village of Ontonagon with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended March 31, 2004. The Village of Ontonagon's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Village of Ontonagon's management. Our responsibility is to express an opinion on the Village of Ontonagon's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Village of Ontonagon's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Village of Ontonagon's compliance with those requirements.

In our opinion, the Village of Ontonagon complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended March 31, 2004.

Internal Control Over Compliance

The management of the Village of Ontonagon is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Village of Ontonagon's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information of the audit committee, management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Bruce A. Rukhila, CPA, PC
Certified Public Accountants

July 20, 2004

VILLAGE OF ONTONAGON
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended March 31, 2004

<u>Federal Grantor/Pass-through Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Federal Expenditures</u>
U.S. Department of Agriculture		
Rural Utilities Service		
Series 2000A Water Supply System Revenue Bond	10.760	\$ 777,000
Water Supply System Revenue Grant	10.760	892,000
Water Supply System Revenue Grant	10.760	<u>562,900</u>
		<u>2,231,900</u>
Forest Service		
Volunteer Fire Assistance	10.664	2,100
U.S. Federal Emergency Management Agency and U.S. Department of Homeland Security		
Firefighters Grant Program	83.544	62,100
U.S. Department of Housing and Urban Development - State Programs		
Pass-through programs from:		
State of Michigan - Grant project - MSC-201057	14.228	<u>1,028,828</u>
Total expenditures of federal awards		<u><u>\$3,324,928</u></u>

VILLAGE OF ONTONAGON
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the year ended March 31, 2004

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	Unqualified
Internal Control over financial reporting:	
• Material weakness(es) identified?	No
• Reportable condition(s) identified that are not considered to be material weaknesses?	None Reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
• Material weakness(es) identified?	No
• Reportable condition(s) identified that are not considered to be material weaknesses?	None Reported
Type of auditor's report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with section 520(a) of Circular A-133?	No

Identification of major programs:

Name of Federal Program	<u>CFDA Number</u>
U.S. Department of Agriculture	
Water and Waste Disposal Systems for Rural Communities	
Regional Water Project - Bonds and Grant	10.760
U.S. Department of Housing and Urban Development	
State Program - MSC-201057	14.228

Dollar threshold used to distinguish between type A and type B programs:	\$300,000
Auditee qualified as low-risk auditee?	Yes

SECTION II - FINANCIAL STATEMENT FINDINGS - No matters were reported.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS - No matters were reported.

VILLAGE OF ONTONAGON
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
March 31, 2004

NOTE A - OVERSIGHT AGENCY

The U. S. Department of Agriculture is the current year's oversight agency for the single audit as determined by the agency providing the largest share of the Village's expenditures of federal awards.

NOTE B - BASIS OF ACCOUNTING

The Schedule of Expenditures of Federal Awards has been prepared on the accrual basis of accounting.



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COMMENTS AND RECOMMENDATIONS LETTER

Honorable President and Members of the Village Council
Village of Ontonagon
Ontonagon, Michigan

In connection with our audit of the financial statements of the Village of Ontonagon, Michigan, for the year ended March 31, 2004, the following concerns regarding the accounting records, procedures, and internal accounting control structure came to our attention and are presented for your consideration.

Our comments are based upon conditions noted during our audit and are not intended to be all inclusive. These comments are submitted as constructive suggestions to assist you in strengthening controls and procedures.

Insured Deposits

We noted approximately forty-one percent (41%) of the Village's deposits are insured by the Federal Deposit Insurance Corporation (FDIC). The Village has determined that because of the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. In addition, the laws of the State of Michigan do not provide for collateralization of bank deposits. As a result, the Village evaluates each financial institution it uses and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

GASB No. 34 Implementation

The Governmental Accounting Standards Board has issued Statement No. 34 "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments" which will completely change the way local governments are required to prepare financial reports and infrastructure information. We take this opportunity to inform you the Village will be required to implement the new reporting model for the fiscal year ending March 31, 2005 and encourage you to begin preparing for its implementation.

We would like to thank the administrative staff for the excellent cooperation we received during our audit. We appreciate the opportunity to present these comments and recommendations for your consideration and we are prepared to discuss them at your convenience.

This report is intended solely for the use of management and the governmental regulatory agencies and should not be used for any other purposes.

Bruce A. Rukkila, CPA, PC
Certified Public Accountants

July 20, 2004